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## Submission on the Proposed 2020/21 Levy-Funded Appropriations

### Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper on its proposed *2020/21 Levy-Funded Appropriations*, published on 5 November 2019.
2. The final recommendations of the Electricity Price Review (EPR) and the Government's response to those recommendations provide the backdrop of the Authority's and industry participants' consideration of issues that need be prioritised in the coming financial year. We set out below our comments on the Authority's proposed levy-funded appropriations intended to address specific EPR recommendations, and on other key Authority initiatives. We also make a few suggestions for process improvements.
3. No part of this submission is confidential. Vector's contact person for this submission is:

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### Initiatives addressing EPR recommendations

4. Vector generally supports the EPR Panel's recommendations for implementation by the Authority, including the Panel's recommendations to:
  - a. prohibit saves and win-backs (Recommendation C5 – short-term);
  - b. improve the functioning of the hedge market by introducing mandatory market-making obligations unless the sector develops an effective incentive-based scheme (Recommendation D2 – medium-term);
  - c. improve the availability of wholesale market information (Recommendation D1 – medium-term) and make 'generator-retailers' (gentailers) release information about the profitability of their retailing activities (Recommendation D3 – longer-term); and
  - d. ensure distributors have access to smart meter data on reasonable terms (Recommendation E3 – medium-term).

#### *Saves and win-backs*

5. Vector supports strengthening the regulation of saves and win-backs. The aggressive use of win-backs is a key strategy used by incumbent retailers to maintain a two-tier pricing structure in the retail market, whereby 'active' switchers obtain the best deals while 'sticky' customers are charged higher prices (effectively a 'loyalty tax'). This weakens competition by creating barriers to entry and expansion for smaller independent retailers.

6. The design of the Authority's proposed amendments to the *Electricity Industry Participation Code 2010* (the Code) banning saves and win-backs, recently published by the Authority for consultation, appears sensible. A 180-day prohibition on win-back activity strikes the right balance between limiting opportunities for aggressive price discrimination while ensuring that all customers retain access to the best available deals in the retail market. The Authority should move ahead with implementing the proposed Code amendments as soon as possible.

#### *Transparency of wholesale market information*

7. Information transparency is crucial to a well-performing electricity market. Vector strongly supports the EPR Panel's recommendation to improve the information disclosure regime for both gas and electricity, and to enforce the rules more vigorously. The problems with the current arrangements were evident during the market stress period in spring 2018, following outages at the Pohokura gas field. Industry participants who had direct involvement in the gas market had much better information regarding the potential extent and duration of the outages, while others did not. This created an 'uneven playing field' that is harmful to competition and undermined market confidence.
8. We also back the EPR recommendation to require gentailers to report separately on the financial performance of their retailing and generation arms. At present, there is no clarity regarding the profitability of these two segments, making it difficult to ascertain whether gentailers are earning excess profits. As noted in our response to the EPR, the Authority can draw on precedents such as the distribution sector information disclosure regime in New Zealand and the segmental reporting rules issued by Ofgem in the UK. Hence, we believe that the Authority can and should implement regulations sooner than the 12-18 month timeframe recommended in the EPR Final Report.

#### *Hedge market performance (market making)*

9. As noted by Vector and other parties during the consultations on the EPR, New Zealand suffers from very low liquidity in the hedge market and a high level of vertical integration. This makes risk management difficult for independent generators and retailers, which in turn raises barriers to entry and weakens competition in both the wholesale and retail markets.
10. We therefore strongly support the introduction of market-making obligations to replace the current voluntary scheme, which is not working effectively.
11. We are pleased with the recent publication by the Authority of a discussion paper on market making. However, we consider that the Authority needs to take bold action now to improve hedge market performance, before the next period of heightened market volatility occurs. The Authority should therefore immediately implement mandatory market-making obligations on the five large gentailers via urgent Code amendments, rather than undertaking an extended consultation process to consider alternative approaches. A full consultation on enduring arrangements could be undertaken in parallel, if necessary.

#### *Access to smart meter data*

12. Vector agrees with most of the stakeholders consulted by the Authority for its "additional consumer choice of electricity services" (ACCES) Project who do not prefer a completely centralised model with sub-ICP level meter data from a central database. Avoiding a highly centralised approach to data access would enable future arrangements to have the ability to be 'dialled up or down' to accommodate increasing demand or minimise unnecessary costs. Consumers should not be paying for services or features they do not use or desire, or pay more than once for the same service.
13. We note that a highly centralised approach to data access has been widely rejected in Australia's National Electricity Market (NEM). Stakeholders in the NEM found this approach to be unsuitable for exploring opportunities to deliver new and innovative services. In our

view, greater innovation is likely to occur outside of the market operator's Market Settlement and Transfer Solutions (MSATS) system.

14. In Australia (with a centralised standard approach) and in New Zealand (with a distributed but Code-regulated exchange of meter data for market reconciliation and billing), the prescriptive and limited nature of data exchange rules limits innovation. In order to support initiatives like behavioural demand response, virtual power plants, solar power purchase schemes, and energy management software-as-a-service, Vector Metering needs to create 'off market' solutions. This is to support requirements to read meters more often or in real time, including sub metered channels, different interval sizes and quantities beyond energy such as voltage and power. These features are likely to continue to be required as innovators keep pushing boundaries. We would like the Authority to recognise these features and requirements and include them in its future work programmes, e.g. amendments/updates to IT standards such as EIEP13A, B and C.
15. Vector Metering has operated a reliable, scalable meter data API for some years to support the above initiatives. However, we cannot practically provide data services to an agent or third party not affiliated with retailers as the authorisation steps required are manual and do not scale. For Vector Metering to be able to provide cost-effective open access to AMI meter data, an authorisation framework is needed that is trusted and accessible via a B2B interface without human intervention required on our part.
16. One way of meeting the above requirement is for the authorisation framework proposed by the Authority to allow metering service providers to become parties to retailer authorisation granted to agents in the EIEP Hub. This could be considered and implemented by the Authority as part of the next steps of its *Quick Wins* initiative under the ACCES Project.

## Ongoing work

### *Distribution pricing*

17. For distribution pricing reform to be durable, customers need to be at the centre of the change process. This enables distributors to develop tariffs that best meet their customers' needs, which may not necessarily be in line with textbook economic theory. We would caution the Authority against adopting a more heavy-handed regulatory approach to pricing reform – this is unnecessary and would likely lead to disputes and unintended consequences, as has been seen with transmission pricing reform.
18. As a step towards customer-centric pricing, Vector recognises that current distribution pricing structures (which recover most of the revenue via flat volumetric tariffs) need to change, and as of 1 April 2020, we will be moving to a time-of-use pricing scheme.

### *Transmission Pricing Methodology (TPM)*

19. As noted in our submission and cross-submission on the Authority's latest TPM Issues Paper, Vector continues to have significant concerns over the Authority's 'direction of travel' on TPM. The TPM proposals are complex, risky, and involve large wealth transfers between market participants for little, if any, efficiency gain. The submissions received on the Issues Paper show that our concerns are widely shared across the industry.
20. The Authority needs to 'go back to the drawing board' and have a re-think of the TPM – particularly given the recent release of the EPR Final Report, which recommended that the Government issue a government policy statement (GPS) on transmission pricing. In our view, the current TPM proposal does not meet the Authority's statutory objective to promote the long-term benefit of consumers. While we acknowledge that there is scope for improving the current TPM, this can be accomplished via incremental changes rather than the radical reform currently being proposed by the Authority.

### *Default distributor agreement (DDA)*

21. Vector notes that Table 3 in the consultation paper, which lists the Authority's existing work programmes that are "likely to continue into 2020/21" does not include the DDA proposed by the Authority in October this year (2019 DDA). The submissions on the 2019 DDA, including retailers' submissions, reflect a widely-held sentiment that parties (retailers and distributors) be given the choice not to move to the DDA if they are satisfied with their current Use-of-System Agreements.
22. As indicated in Vector's submission on the 2019 DDA, we do not consider the net benefits of a DDA, as presented in the consultation paper, to be clearly justifiable. We believe there are regulatory levers that can deliver much greater efficiency and consumer benefits without the risk of stifling innovation, including innovation in contracting. These include implementing much-needed reforms in the wholesale electricity market and enabling greater access to data, as highlighted by the EPR and mentioned above.
23. We acknowledge the Authority's proposed improvements on the 2016 version of the DDA, which include enabling distributors to access consumption data from retailers.
24. Our submission proposed improvements to maximise the benefits of new technologies to consumers, should the DDA be adopted. These include improvements to ensure that distributors have the ability to offer new technology solutions to consumers on an equal footing with other industry participants.

### *Open Networks project*

25. Vector encourages the Authority's Open Networks project team to collaborate with the new technical working groups progressing the ENA's *Network Transformation Roadmap* (NTR), including on DER connection standards (NTR Working Group 3).
26. Collaboration between the Authority and the ENA would promote information sharing on the impact of rapidly evolving technologies on distribution networks, avoiding overlapping regulatory work and gaps. For example, the two parties could jointly consider the development of a register of distributed energy resources (DER) in New Zealand, including considering the model that was adopted for the DER register in Australia's NEM.

## **Processes and other issues**

### *Advisory group membership*

27. Vector's submission on the Authority's levy-funded appropriations last year suggested that the Authority make a call for nominations prior to every selection process for new advisory group members. This promotes transparency and ensures that the Authority's pool of nominees is 'refreshed' on a regular basis. This would allow qualified people, who may have been unable to put themselves up for nomination in the past for various reasons, to make themselves available to sit on IPAG.
28. We were disappointed with the latest round of appointments for IPAG membership where no public call for nominations was made prior to the announcement of those appointments in October 2019.
29. We reiterate our suggestion that the Authority make a public call for nominations prior to every selection round to replace advisory group members and/or chairpersons who are resigning or whose terms are about to expire.

30. We also reiterate our position that advisory group chairpersons should remain independent, as set out in our submission on the Authority's consultation in January 2019 on removing the requirement for advisory group chairpersons to be independent.

#### *Publication of advisory group meeting papers and minutes*

31. Vector appreciates the timely publication of advisory group meeting papers and minutes by the Authority since last year's consultation on its levy-funded appropriations.

#### *Due dates for submissions*

32. To avoid 'consultation fatigue', we reiterate the suggestion we made in our submission on the Authority's levy-funded appropriations last year for the Authority to avoid requiring multiple submissions to be submitted on the same due date. We suggest that submission due dates be scheduled in a staggered manner, including avoiding the release of a disproportionate number of consultation papers during the remaining few weeks of the calendar year. It is reasonable to assume that industry participants' regulatory staff not only work on multiple submissions to a specific regulator, but also across multiple regulators.
33. We therefore encourage the Authority to coordinate with other regulators, particularly the Commerce Commission, on the release of consultation papers.
34. We welcome the more 'distributed approach' the Authority is taking in relation to the submission process through the use of more customised email addresses for submissions and stakeholder queries about specific consultations.

#### *Code Review Programme*

35. Vector supports the Authority's intention, signalled at the Authority's meeting with regulatory managers and consumer representatives on 22 November 2019, to move from annually reviewing and updating the Code for technical or non-controversial (omnibus) amendments to six-monthly reviews. We believe this proposal would assist in making the Code more responsive to rapidly evolving technologies, business models, and consumer expectations.

#### *Publication of submissions*

36. Vector believes that it is now the widespread expectation of industry participants that the Authority will publish all submissions (subject to confidentiality considerations) soon after the conclusion of each submission process. We prefer this approach rather than making industry participants submit requests under the *Official Information Act 1982* (OIA) at a later date for copies of particular submissions they wish to see.
37. For example, we note that submissions on the Authority's consultation in January 2019 on removing the requirement for advisory group chairpersons to be independent have not been published. Vector considered that proposal to be a departure from good governance, and therefore did not support it.
38. We further note that submissions on the Authority's consultation in May 2019 on the timing of the DDA consultation have not been published, resulting in a party making an OIA request for those submissions, and the Authority 're-consulting' submitters about releasing their submission to the requesting party.
39. To promote transparency, we encourage the Authority to publish submissions on all public consultations in a timely manner. This would enable industry participants to develop more informed and timely positions on regulatory and related issues affecting their business and customers.

**Concluding comment**

40. We are happy to discuss any aspects of our submission with the Authority.

Yours sincerely  
For and on behalf of Vector Limited



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